

ADDENDA

Article and speeches by Robert R. Midkiff:

"The Renaissance of Our Downtown." *The Honolulu Advertiser*, November 12, 1980: B-1.

"Preserving Historic Lahaina." Speech to the Social Science Association, Honolulu, June 6, 1983.

"Bringing the Ownership of Bishop Trust Back to Hawaii—A Mid-Course Correction in planning." Speech to the Hawaii Corporate Planners Association, Honolulu, n.d.

"The Good Beginnings Alliance." Speech to the Social Science Association, Honolulu, April 7, 1997.

The renaissance of our downtown

By Robert R. Midkiff
Special to The Advertiser

On my Mainland travels I have noticed lately how fashionable it has become for Americans to complain about their seeming inability to make positive changes in their lives, their neighborhoods, their communities.

"This country isn't what it used to be." "You can't buck City Hall." "You can't win. Why bother?"

I think these sentiments are only a passing malaise, a symptom of our current difficulties on the international scene, or perhaps of a society regrouping itself on the eve of a national presidential election.

The truth, of course, is that Americans who care do have power to improve their lives, their environment and their towns and cities. But this change has to come by choice and by plan.

Downtown Honolulu is a prime example of how people who care deeply — and at the right time — have changed the face of an ocean-side metropolis from post-World War II decay and stagnation to a place of charm and beauty cited admirably by the publishers of *Sunset Magazine* in "Hawaii, a Guide to All the Islands."

"Honolulu is an enticing mix of yesterday and today, of the Orient and America . . . buildings of Hawaii's missionaries and monarchs and Oriental immigrants stand beside sophisticated new high-rise towers, malls, parks, plazas, sculpture, stores, and restaurants . . . Some of the new structures and most of the new pedestrian spaces are handsome; some old buildings that contribute to Honolulu's historic continuity are being saved and enhanced."

Downtown Honolulu was not always the envy of our Mainland neighbors. After World War II, the city atrophied and slumped into the postwar blues. Land values plummeted. By 1950 downtown Honolulu had sunk to a deplorable condition. The preparation of the estate tax return for a downtown landowner crystallized this for me.

In the 1950s, the late Jimmy Glover sold his kua furniture factory on Beretania Street for a payment which included exchange of two parcels of property on King Street at Smith and Kekaulike streets. The executor had to sell these parcels to pay off the federal estate tax, yet we could not find a single buyer willing to come up with the low, property-tax-assessed value of the parcels.

This disturbing incident and others like it helped galvanize property owners and businessmen into action. The first big step came when principal downtown property owners — the Alexander Young Estate, Bishop Estate, Campbell Estate, Charles Brewer Estate and others — called a meeting to see what could be done to breathe life into downtown Honolulu.

We found a tremendous interest and, as a result, the Downtown Improvement Association was formed in May 1958, with Alex Anderson (president of Alexander Young Estate) as first president. I was vice president.

About 60 downtowners showed up for the organizational meeting, demonstrating beyond question that they cared deeply about what was happening to their city. Retired Chamber of Commerce manager John Hamilton was named executive director, and we agreed to tackle

three problems: the economics of downtown, the parking mess, and the need for an overall master plan.

Planner Don Wolbrink put together a "plan for planning." We hired an international consultant firm to study traffic and parking, which resulted in three new city parking garages. We were getting under way.

Then we hired Mainland real estate consultant James Downs to evaluate Honolulu's economic future. In 1959 Downs gave us a simple but effective prescription:

First, we would have to anchor the government decision-making center by locating the new state Capitol in central Honolulu, thus ensuring that all state, city and federal headquarters buildings were a part of downtown.

Second, we would have to anchor the business decision center of the 50th state downtown by building a sort of "Rockefeller Center" to serve as a business magnet and catalyst. The Financial Plaza of the Pacific would be this anchor.

Third, we would have to revitalize the retail business of downtown Honolulu by enticing tourists away from Waikiki into the central city. This would require restoration of our great historical and cultural assets, such as Iolani Palace, the Mission Houses Museum and Chinatown.

Achieving these three goals became my consuming interest for the next 10 years.

In 1959 the Legislature appropriated \$100,000 to design a new Capitol, for which several sites were being proposed. A lot of infighting was already under way.

My uncle, Atherton Richards, promoted the waterfront at Fort Armstrong and proposed a large fountain of water cascading from the roof of the Capitol as a landmark for visitors steaming into Honolulu Harbor. Harold Castle offered to donate the present location of Hawaii Loa College below Nuuanu Pali as the Capitol site and Sen. Oren E. Long pushed for the Ala Wai Golf Course.

Downtown businessmen, meanwhile, favored the block bounded by Beretania, Richards, Hotel and Punchbowl streets.

A citizens' committee chaired by my father, Frank E. Midkiff, narrowly approved the Fort Armstrong site. Newspaper editorials were divided between Fort Armstrong and the Civic Center.

At about this time I was elected chairman of the Civic Center Committee of the Downtown Improvement Association. We built a scale model of the Civic Center showing where the new Capitol would fit and indicated walking times from the Capitol to other key government sites. We presented the model to Gov. William F. Quinn, asking him to release the \$100,000 voted by the Legislature for design of the proposed Capitol.

The governor decided to appoint an architect selection committee. I found myself volunteering for membership. I was elected co-chairman, along with state Rep. George "Scotty" Koga. On the 12-person blue-ribbon committee were citizens from the Neighbor Islands, Republican and Democratic legislators, city officials, and representatives of the governor's office and the federal General Services Administration.

As we looked for an architect we set some basic guidelines: We would not hold an architectural competition (under AIA rules, we would have to use the winner's submission), but instead the committee would make the selection directly. Any architect anywhere in the world would be eligible, providing he allied himself with a local team of architects and engineers familiar with our climate, building and zoning requirements.

Altogether, 39 distinguished architectural groups showed interest and 28 followed through with presentations.

John Carl Warnecke, with the local Bell, Lemmon & Lo team, made an impressive presentation that included his proposed design of the U.S. Embassy in Bangkok. That building, thrusting upwards from a mirrored pool of still water, seemed appropriate for Hawaii.

The major competitor was the local team of Ernest Hara, Kenneth Brown, Ted Vierra and George Houghtaling. In the end Warnecke and Bell, Lemmon & Lo were selected by a narrow margin.

Meanwhile, Scotty Koga and his subcommittee were visiting eight of the newest state capitols on the Mainland, studying space needs and the functional uses. We were being thorough.

At first Warnecke wanted to extend the Civic Center from Richards Street to Thomas Square. This caused an uproar, and we had to settle for an alternate plan — a Civic Center corridor starting from the top of Punchbowl and flowing to the sea, bounded by Richards and South streets. As we evaluated traffic, pedestrian access and the like, land values in the Civic Center area began to zoom as it became apparent that here, indeed, would be the site for the new Capitol.

Then a local physician announced he was going to build a high-rise building looking smack down on the Capitol from his lot on the corner of Hotel and Punchbowl streets. Scotty Koga beseeched the city and county to hold up the building permit. We hoped to use part of the governor's proposed \$1 million land acquisition request to buy the doctor's site.

At a meeting of the City Council, the agitated doctor glared at me and shouted that Bob Midkiff was indulging in fantasy if he thought the Legislature would ever appropriate enough money to buy his property. The council agreed to defer action on the building permit to see if the Legislature would act favorably.

Meanwhile the DIA "Friends of the Civic Center" committee put out a brochure comparing proposed sites for the Capitol and presented a petition bearing over 10,000 signatures favoring the Civic Center site. They also sent a barrage of letters to local editors. The \$1 million appropriation for land acquisition for the Civic Center squeaked through, and a hefty chunk of it went to the good doctor.

While this was going on, more than 3,000 volunteer committee hours were being concentrated on the design program for the Capitol — demonstrating how concerned and motivated citizens can make things happen for the good of their community. A dozen design proposals were presented and rejected. But the 13th was a beauty — you see it now, every time you pass the Capitol.

The design enabled the public to walk in from the central courtyard to watch the Legislature in action, and then to move upstairs to meet individually with their representatives on the great open balconies beneath the sky. State administrative offices were on top and the whole affair rose majestically from an expansive reflecting pool. We agreed it was worthy of our Hawaii.



The recently restored Iolani Palace: Thousands of volunteer hours and \$7 million from the state.

But when Bill Quinn lost the 1962 election, I held my breath. What would the new governor decide?

I found out in January 1963, at the presentation of the completed Capitol design plans for Gov. John A. Burns. I sat, very small, in the back of the room while Democrat Scotty Koga officiated. Jack Warnecke made an eloquent presentation. A hush came over the room while the new governor quietly considered. After some long, contemplative moments, Gov. Burns' craggy, Lincoln-like face cracked into a broad smile.

"I like it," he said. "What Hawaii needs is a great state Capitol. And a great football team!"

Not long afterward the state moved Iolani Barracks, coral block by coral block, from its original site to make way for the makai pillars of the new Capitol. The barracks was placed on Iolani Palace grounds where you see it now. Almost completely restored.

In the moving process, many blocks were broken, causing added expense in restoration, and providing a valuable lesson for the restoration of Iolani Palace soon to follow: namely, that restoration must be painstaking and slow and does not fit the requirements of competitive bidding.

Yet, some clouds do have a silver lining. At that particular time we did not have a national historic register. As a historic landmark, the barracks probably would have been impossible to move. Yet, the area originally occupied by the barracks was essential to the proper siting of the Capitol.

When the Capitol construction was pau, all offices and legislative chambers were moved to the new building, leaving Iolani Palace an empty shell, pockmarked with temporary wooden additions. Liliuokalani Morris formed the "Friends of Iolani Palace" and our attorney George Ariyoshi drew up the charter and bylaws. Gov. Burns provided initial restoration planning funds, and Aaron Levine chaired a new steering committee.

Soon afterwards, at our annual members' dinner held at the Kahala Hilton, Gov. Burns announced his decision to have the Friends of Iolani Palace become official contractor with the state government for palace restoration. I became a member of the policy committee to develop plans for the restoration and future use of the building. Restoration and museum specialists were brought in from the Mainland.

The restoration committee spent thousands of volunteer hours

meeting weekly to work on each specific problem of the handcrafted restoration effort which so far has been funded by the state with over \$7 million.

This again underscores the value and power of a committed citizenry dedicated to the presentation and enhancement of community values.

The glistening new palace is developing into an important educational attraction, now drawing hundreds of local and out-of-state visitors daily. The Mission Houses Museum, which also underwent complete restoration, is another vital historic attraction helping to carry out that early prescription of Jim Downs: "Bring the tourists downtown!"

There have been hits and misses in this program. The spark to energize redevelopment of Chinatown was to be the massive new Cultural Plaza. So far the Cultural Plaza has fallen flat, but it has not been for lack of hard work and dedication.

One big problem has been the failure to attract Waikiki tourists. I am told one reason is the lack of parking facilities for tour buses.

If a way can be found to rejuvenate the cultural center, now just limping along, the revitalization of Chinatown and its many cultural attractions is sure to follow.

A thundering success, by contrast, was the Financial Plaza of the Pacific — the third "must" of Jim Downs: "Anchor the headquarters of 50th state business downtown."

Not only has the Financial Plaza of the Pacific been a runaway success from the beginning, it was also a major "first" for the United States — the first commercial condominium project to be put together under the American flag.

As the new state Capitol project gained stability and direction in the mid-1960s, my interests were drawn deeply to the Financial Plaza of the Pacific.

In those early days Castle & Cooke, which anchored the block, had two conflicting programs for enlarging its corporate headquarters: One faction wanted to stay downtown, the other proposed to move to Iwilei, atop the Dole Pineapple office. Downtown prevailed.

Scott Pratt, then president of Hawaiian Trust Co., invited the six owners of the block, including Bishop Trust Co. both as owner and as trustee for the Austin Trust, Castle & Cooke; the Wilcox Development Co.; and Territorial and American Savings & Loan Associations (which jointly owned fee property on the corner of Fort and Merchant streets) — to meet to work out a development program for the entire block.

Coincidentally (although now I sometimes wonder about "coincidence"), I had just completed a Kalia Valley redevelopment project where pig farm owners agreed to put their holdings into a trust in order to end up with subdivided home sites to meet Federal Housing Administration and city zoning requirements.

So, I suggested that perhaps the same idea could be applied to the Financial Plaza — all owners could pool their fee simple interests into a "tenancy-in-common," then jointly construct a commercial condominium under the newly passed Hawaii condominium law (another timely "coincidence").

I became chairman of the committee of owners, and with the innovative help of our attorney, H. Baird Kidwell, worked out the feasibility of exchanging property interests for fee simple title to condominium

space for both "town-office" and rental space in the proposed development.

We looked at an architectural scheme prepared by architect Leo Wou. His initial plans called for arcades and rounded windows harmonizing with the adjacent old Davies building, somewhat like the Doge's Palace in Venice.

His second plan left the entrance to the American Savings & Loan building 8 feet above the Fort Street sidewalk. Only a number of personal calls to American Savings' national president in Salt Lake City kept the company in the project. Fortunately, this president had formerly lived in Kahala near my home and had given me rides to my downtown office in those simpler days when we were a one-car family and I hitchhiked to work.

For the condominium project to succeed, an intricate series of exchanges of property had to be arranged between various owners. Each landowner acquired condominium space for his own offices plus additional space to rent to others, all in proportion to the original value of his property on the site. A temporary tiff threatened to derail the project, but I was able to get the members back together. We arranged attractive mortgage financing from the pension plans trusted by a major Eastern bank.

Just think of it: In those days, the loan rates for a 25-year mortgage loan to the ownership components ranged from 4.75 to 5.25 percent.

While project details were being ironed out and architect Wou's final plans were being approved, First Hawaiian Bank went ahead with its new major headquarters building directly across the street from us. Now, it could be truly said that the downtown renaissance was under way.

A few years later, Moses Randolph persuaded the city to transform shabby old Fort Street into a beautiful mall, further expanding the renaissance. The mall is a delightful and attractive addition to our inner city.

But it has proved to be a Pandora's box as well, enticing "street people" who sleep there by night and loiter during the day. What is the answer? I don't know. Progress presents new challenges.

Another major problem so far not resolved is the establishment of a major downtown hotel, one designed for island commercial travelers as well as overseas businessmen. We have a crying need for such a facility.

A comfortable new commercial hotel would fill the need for meeting rooms for business seminars and luncheons and eliminate the gas-consuming commute to and from Waikiki. With an expected high-room count, such a hotel could also help light up downtown Honolulu restaurants in the evenings — restaurants that now languish.

Where could you build such a hotel? That's easy. Just construct it over a city parking lot — say, for example, the one of the corner of Bethel Street and Nimitz Highway, which offers a superb view of the harbor.

And finally, downtown needs HART — the fixed guideway. Almost every bus on the island has to creep through Hotel Street, wasting time and fuel. I would be happy to catch a shuttle bus to the Kahala Mall and ride in comfort and quiet to my downtown office every morning.

We have come a long way, and we have a track record to be proud of. The Financial Plaza of the Pacific was the catalyst for the growth of adjacent business buildings, such as the Davies Pacific Center, the soaring Pacific Trade Center, and the gleaming new Grosvenor Center.

Our award-winning Capitol, with its "mountains to the sea" vistas, has been followed by the handsome new Federal Building, housing upwards of 2,500 federal employees. Restoration of Ali'iolani Hale (the State Judiciary Building completed in the 1870s, several years before Iolani Palace), the City Office Building, and plans for construction of several other important new government buildings. Our Civic Center is being beautified while it is being renewed.

All this has flowed from the vision and determination of a "turned on" body of citizens two decades ago — citizens who were determined to make Honolulu a better place to live, work and enjoy.

These were ordinary business people with a distinctly unordinary perception. They knew that power for change and progress comes from within. Each of us has that power. We only have to use it.



Fort Street, above, has been transformed into a beautiful mall, unfortunately an attractive to "street people" as to shoppers. At right, the city parking lot at Bethel Street and Nimitz Highway: Site for a much-needed commercial hotel?

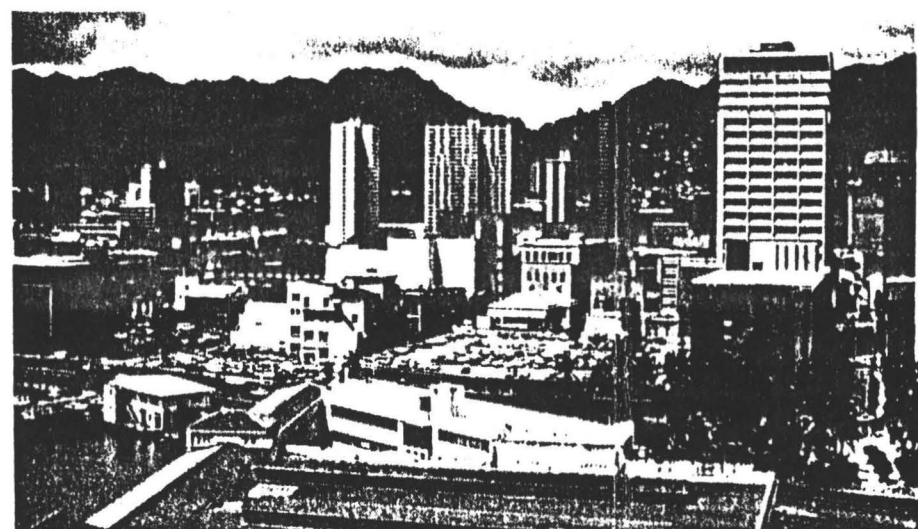
About the author

Robert R. Midkiff is a kamaaina whose great-grandfather, a New England missionary, rounded the Horn in 1837 and became the teacher of the Chiefs' Children's School (located near today's City Hall).

A Phi Beta Kappa from Yale (class of '42) and AMP at Harvard Business School, Midkiff founded American Trust Co. of Hawaii Inc. in 1971 and serves the firm as president and chief executive officer.

Midkiff was formerly vice president of Hawaiian Trust Co. and of Amfac and president of American Security Bank.

He has served as chairman of the Hawaii Visitors Bureau, president of the Downtown Improvement Association and founder and director of the Waikiki Improvement Association, and is a director of the Friends of Iolani Palace and the Lahaina Restoration Foundation.



PRESERVING HISTORIC LAHAINA

Talk By Robert R. Midkiff

SOCIAL SCIENCE ASSOCIATION

Honolulu, Hawaii

June 6, 1983

The town of Lahaina, on the island of Maui, is a scenic and historic jewel. Home of the boy king Kamehameha III, and for many years capital of the islands, Lahaina was the scene of a great struggle over the future course of Hawaiian history.

Missionaries sought to bring the Kingdom of God to earth in the form of a constitutional monarchy where they would serve as the advisors. Whalers, seeking temporal pleasures as well as supplies during their winter respite from hunting the great whales, hoped there was no law west of Cape Horn. The future-oriented versus me-now elements of Western European Civilization fought for control over the mind of the young king.

The record of these conflicts is revealed in the historic sites and buildings in the town of Lahaina. Here was the bower of bliss where King Kamehameha lived with his sister Nahienaena. Today this is the site of Maluolele Park, near the center of the town. Kamehameha's palace is now the site of the National Guard Armory. Nearby, the home of the Reverend William Richards, who persuaded the King to limit his autocratic powers in order to preserve his

kingdom, is now a small green lawn next to the Reverend Dwight Baldwin's Home, which is now the headquarters of the Lahaina Restoration Foundation.

The two missionary buildings were under bombardment by whaling ships when these lusty seamen learned that the visitation rights of the young ladies of Lahaina had been restricted by the King's orders.

The first Constitution of the Kingdom was proclaimed in the old courthouse behind the cannons along the brick wall. After the capital was moved to Oahu, next to the harbor of Honolulu, Lahaina moved out of the mainstream of history. The U.S. Seaman's Hospital was established for the whalers in the 1840's. An inordinate amount of United States Government funds was used to support the sick and wounded whalers who were reportedly in need of care in the hospital. The introduction of oil and kerosene as fuel for the lamps of America and the great freeze of 1851 which destroyed most of America's whaling fleet, brought down the curtain on Lahaina as a whaling port.

A number of small and struggling plantations tried to grow sugar on the arid plains of West Maui, irrigating from the flow of the mountain streams. James Campbell got his start working for John Turtin and married a Lahaina girl. A number of Germans from Hamburg and Bremen settled in Lahaina to grow sugar before the Reciprocity Treaty of 1873 which brought prosperity to the sugar industry. The small plantations combined to form the

Pioneer Mill with financial backing from Henry Hackfeld & Co. Lahaina, with its calm waters and small harbor at the end of a long and dusty road over the Olowalu Mountains, was best served by sea.

By the end of World War II, Lahaina was the small plantation town center for Pioneer Mill and for the Baldwin Packers, established by the Baldwin family to process pineapples from their extensive fields farther up the coast. In the 1950's, with the Island economy in a very depressed state, the Maui Economic Development Council took stock of the assets of Maui and determined that the historical treasures in the heart of Lahaina deserved to be preserved and rehabilitated. They laid out a program for the establishment of the Lahaina Historic District No. 1. This district was bordered by the Maluolele Park, the waterfront area around the Pioneer Inn and the Baldwin House. Historic District No. 1 was adopted by the Maui County Council with careful architectural controls and height limits. Projects for renovation were discussed but no funds were appropriated.

In 1952, I was elected to the Board of Directors of Pioneer Mill, Ltd., representing various blocks of stock held in trust by Hawaiian Trust Co. as trustee, for which I was a Vice President. The following year I became a Director of American Factors, Ltd., predecessor of AMFAC, Inc.

In 1956, a joint meeting of the boards of American Factors and Pioneer Mill was held in Lahaina. The night before the meeting,

we met at the Pioneer Mill Supervisor's Cottage in the lee of Kaanapali's Black Rock for a cocktail reception. As sunset approached we heard the throbbing of drums and low chanting up the beach and were entertained by the sight of a large host of Hawaiians, moving down the beach in ancient costume, chanting as they came. Emma Sharp had organized a magnificent tableau with songs and dances underneath a full Maui moon. The next day, George Sumner, President of American Factors, proposed the creation of a resort development along the beaches of Kaanapali, with a dramatic hotel to be built on the Black Rock. The boards enthusiastically voted for the creation of Hawaii's first planned visitor destination resort.

In 1957, Russell Cades and I, both Directors and members of the Finance Committee of American Factors, proposed the establishment of a Lahaina Restoration Foundation. Russell, drawing on his experience as attorney and trustee of the Honolulu Academy of Arts, established a two-board setup with the trustees of the Foundation to own the assets and the Friends of the Foundation to raise money through membership activities.

Initial chairman of the foundation was Mrs. Keith Tester, wife of the then manager of Pioneer Mill. Two vice presidents were Colin Cameron, representing Baldwin Packers, and myself. The officers of American Factors worked for two major accomplishments at that time: the first was to have the new Federal Aid Highway moved back from the beach, up along its present alignment behind Kaanapali in order to make room for hotels and a golf course along

the beach. The other was to implement Maui Historic District No. 1 by opening up the waterfront around Pioneer Inn and the State Library. One of these buildings was the old Lahaina Light & Power Co. warehouse which was located out on the Point. The directors of Pioneer Mill authorized a gift of this site and building to the Lahaina Restoration Foundation. When Maui County condemned the site, the proceeds went tax-free into the Foundation to fund the restoration of the Baldwin House.

This ancient building was owned by H. P. Baldwin, Ltd., a family corporation holding various assets on the Island of Maui. With proper prudence, the Baldwin family gave a \$1 a year lease to the Restoration Foundation to observe the type of restoration which would take place. When their faith was justified, they terminated the lease and made a grant of the land and building to the Foundation in perpetuity.

On April 1, 1964, I went to work as Vice President for Corporate Planning for American Factors. While at Hawaiian Trust Company, I had been very active in the Downtown Improvement Association and the building of Hawaii's State Capitol, as well as the creation of the Financial Plaza of the Pacific. During March, 1964, before going to my new job, my wife and I took a leisurely vacation on the East Coast, visiting historic sites from St. Augustine, Florida, to Mystic, Connecticut and Stourbridge Village, Massachusetts.

We found St. Augustine, Florida to be a marvellous model for the restoration of Lahaina. St. Augustine is a town that was bypassed for centuries with fascinating buildings going back to the Spanish occupation in the 1500's. They have restored a number of old buildings, and tied them together with an elephant-train transportation system, so that people can visit representative homes and public buildings and get an overall experience of St. Augustine history under the flags of Spain, France, England and the United States.

Lahaina, with its history expressed in separate locations, from the Olowalu Petroglyphs to Kaahumanu's Coconut Grove at Mala, and including the Seaman's Hospital, Baldwin Home, Lahaina Prison and the Hale Aloha could adopt the St. Augustine model. The Foundation could be the catalyst to accomplish an unique marriage of state, county and private restoration projects.

The day I went to work at AMFAC was the day Janss Development Corp., Victor Palmieri, President, gave Harold Eichelberger, by then President of American Factors, the choice of selling the entire Kaanapali area to Janss or taking over the role of active developer. Harold reluctantly agreed to Janss' resignation as Kaanapali's developer, and presented me with my first corporate planning project, the future of Kaanapali.

At that moment, Kaanapali had great promise, but was in severe financial straits. The Sheraton Maui was the only success story. Sheraton, with an excellent sales organization, would maintain

adequate occupancy in their hotel. The other two hotels, the Royal Lahaina and the Kaanapali Beach, were in desperate financial condition. The Royal Lahaina was kept afloat through annual cash injections from a wealthy insurance magnate, Mr. J. C. Earle. Mr. Leonard Goldman, owner of the Kaanapali Beach Hotel, would close his dining room if there were less than 15 people in the hotel on any one night. Several small condominium resort developments had been started above the highway. Kaanapali was in the midst of a real estate recession. Development momentum was about to shift to Bishop Estate's exciting new resort in Keauhou, Kona, and to the spot zoning projects along the fringes of all the neighbor islands.

The Janss group had put together an excellent development team with very advanced thinking for a destination resort. They looked at Kaanapali as a major shopping center, requiring landlord/tenant cooperation for cooperative marketing and promotion.

The very first job was to improve the occupancy of the existing hotels. Amfac retained Fawcett, McDermott, Cavanaugh Associates to develop a marketing strategy. We recognized the plus of historic Lahaina to the beautiful sandy beaches of Kaanapali as a truly unique combination of scenic and historic attractions.

AMFAC increased its interest in the Foundation, providing manpower and financial support to continue several restoration projects, including the acquisition and reconstruction of the whaling barge,

the Carthaginian, and the acquisition of the land for the reconstruction of the United States Seaman's Hospital.

To assist with the marketing of Kaanapali, we established the Kaanapali Beach Operators Association, and contributed the first year's hefty \$250,000 promotional budget. We hired Buddy Soares away from Pan-Am Airways to become our marketing director and to travel with the HVB familiarization tours to sell beautiful Kaanapali and restored Lahaina town.

Our next project was to put a lid on Lahaina Town, since we could see that any development progress at Kaanapali would create tremendous economic pressures to go high rise and change the character of the historic town.

At the time, the Real Property Division of Amfac was pursuing a policy of selling off parcels of property in Lahaina Town to active developers, contingent upon their obtaining rezoning suitable for their proposed projects. This produced a backlash from the politicians and the local people of Maui who could see their property values rising and their real property taxes increasing, without personal benefit.

Early in 1965, I called a meeting of some 50 community leaders from the Lahaina area together with political leaders from central Maui and announced a moratorium on any further sales of Amfac property until we had completed a master plan for Amfac's properties on West Maui. I promised that Amfac would, with the

cooperation of Baldwin Packers, fund masterplanning for the entire region from the end of the Kaanapali Airstrip back to the Olowalu Tunnel at the entrance of the West Maui region, regardless of whose properties were to be benefitted.

We hired John Carl Warnecke's firm to complete the Kaanapali Resort planning and to start the process of West Maui planning. This firm assigned a very talented planner, Adam Krivatsy, who moved to Lahaina for a year, meeting on a weekly basis throughout the community. In over 50 meetings he received input from the residents of Lahaina as to the kind of space planning they would like to see.

The end product for Kaanapali is what you see today. Sight lines were established, maximum heights set, minimum lot sizes and maximum number of rooms per lot were laid out. One of the key decisions was the location of housing for future employees. We concluded that the ideal site was not at the Kaanapali Resort, but above the town of Lahaina, on the road up to Lahainaluna School. This property is equally owned by Pioneer Mill and Bishop Estate. We planned for two new neighborhoods on the hill, enjoying the gorgeous view and the breezes, with two small shopping centers and commercial areas. It has become a requirement of the County that each new hotel provide housing for its employees in the planned areas.

Amfac's plan was completed and became the basis of what is known as a "701" plan, or a county, state and federal plan. Amfac and

Baldwin Packers each put in \$3,750 as seed money, to be matched by the County's \$7,500. This, in turn, was matched by the State's \$15,000, with the Federal Government putting up \$30,000. We were able to complete the 701 plan with only \$60,000 of combined money because of the major input of the Amfac-Warnecke plan which had already been completed with so much community input.

Integral to this process, was the establishment of Maui Historic District No. 2. There was considerable unhappiness and concern among the Lahaina businessmen and property owners who pictured Amfac with its highrises making a fortune while they were condemned to a 30-foot height restriction under a Historic Ordinance.

While the Ordinance was being considered by the planning and elected county officials...a very prime location on the corner of Front and Lahainaluna Streets came on the market. This property was jointly owned by descendents of the Crozier family and the Kondo family. The heirs of the Crozier family decided to cash in on the rising property values and moved to partition their one-half interest and sell it outright.

I met with the Kondo family to see if we could work out an arrangement whereby they could purchase the Crozier interest in the property. Amfac would arrange a mortgage through the Bank of Hawaii for whatever amount was necessary to acquire the Crozier interest and Amfac would sign a lease which would cover the amortization of the loan, plus a premium. The Kondo family would

own the entire property; free and clear after the payoff of the note. They agreed and armed with our backing, entered into a very spirited bidding contest at the auction of the Crozier interests, eventually acquiring the other half of the property at the then unheard of price of \$20 per square foot.

With this problem settled, and after a very bitter public hearing where some developers still wanted to see Lahaina go high rise, the County passed Historic District No. 2, extending the original area three more blocks along Front Street. The County placed a 30-foot height limit on all commercially zoned lots in the town; with the single exception of a piece of property on the south side of town where the Maui Whaler is presently located. This property was owned by the Tan family, proprietors of the Banyan Inn, who were represented by two of my most important supporters in passing Historic District No. 2. It was essential to compromise on this particular piece of property in order to put a lid on the rest of Lahaina.

The result of Historic District No. 2 and the 701 Plan is a drive to Lahaina and Kaanapali along the West Maui coastline of unmatched beauty. Beyond Kaanapali to Kapalua, there is unrestricted development with wall-to-wall condos, much like the coastlines of Kihei and Kailua-Kona, and most other areas adjacent to our major destination resorts.

While the overall character of Lahaina was being politically secured, the Restoration Foundation was completing a careful

restoration of the Baldwin Home. After some valuable historical research by the historian-architects, Ross and Lockie Frost, and some important archeological digs which turned up a considerable cache of missionary and whaler artifacts, the Foundation proceeded with careful stone-by-stone restoration under the direction of Blaine Cliver, a National Park-trained historical architect. Manager of the Foundation was Larry Windley, a former deep sea diver who got the bends diving for black coral. With a deep interest in the sea, he pointed our way to the importance of a whaling vessel restoration. We were able to obtain from the producers of the movie Hawaii, the brig Carthaginian which had been restored for use in that epic. Anchored on the waterfront opposite the Pioneer Inn, this became a premiere attraction.

The Carthaginian brought in considerable ticket revenue to help meet our operating expenses. Ever the practical businessman, Keith Tester, volunteer Chairman of the Foundation, leased out two old buildings on the Baldwin Home property which produced additional rental income and provided a site for an orientation sound/slide show to tell the story of historic Lahaina.

With operating expenses covered by income from the Baldwin House, the Carthaginian and the lease rentals, annual fund drives could be used to raise money for restoration projects. One successful fund drive purchased from the Trustees of the Bernice P. Bishop Estate the site of the former U. S. Seamen's Hospital. Some very interesting historical research by the Frost team developed evidence of a major fraud perpetrated on the United States Public

Health Service by the doctors who claimed to treat hundreds of sick and wounded seamen. Over one-half of the entire U. S. Public Health budget in 1852 went to support these doctors. After the Civil War, a U. S. naval ship was sent to Lahaina to collect the records of these expenditures. On its return voyage to Panama, the vessel disappeared, with all records lost!

Archaeological diggings at the site of the old hospital failed to find any foundations except for a human skeleton under a makai corner post. The building had been originally built for Kamehameha III as a pleasure home away from his palace.

At the same time, State and County help was enlisted to work on the restoration of Hale Pai, the scene of the original printing press at Lahainaluna School. Here the Lahainaluna copper engravings were struck and generations of school children were taught to read and write and print their own reading materials. The Royal Coconut Grove, originally planted by Queen Kaahumanu, was replenished with help from Pioneer Plantation people.

The agenda for future restoration is very long. The Lahaina Prison has great potential for restoration in order to tell its colorful story. The King's Palace and the King's Gardens, all on State lands, should be restored with State funds to tell the story of the great Kamehameha III. In order to preserve the kingdom, he was willing to cede his sovereignty five times during his reign. Thanks to him, and his Haole advisors, Hawaii stayed independent during the 19th century, while all other native kingdoms on the

face of the earth, with the exceptions of Japan, Thailand, and Ethiopia, passed under European colonialism.

The Restoration Foundation has benefitted from the support of an outstanding group of Maui and Oahu volunteer directors. It has benefitted from the capable management and leadership of Jim Luckey, a retired businessman. He is one of the longest term managers of a historical project in the Islands. Tempering historical enthusiasm with practical business judgment, he has led an enthusiastic group of volunteers through many successful restoration projects and into the great challenges that lie ahead.

Lahaina and the island of Maui are prime visitor attractions. Restored Lahaina town has brought prosperity to the Lahaina Restoration Foundation. The assets of this foundation are now over a million dollars.

The marriage of beautiful Kaanapali and restored Lahaina has been the key to the success of both parties. History and scenic beauty, properly promoted and developed--an unbeatable combination for the future of Hawaii's visitor industry and Hawaii's people.

**"Bringing the Ownership of Bishop Trust Back to
Hawaii—A Mid-Course Correction in Planning."**

by Robert R. Midkiff, President
American Trust Co. of Hawaii, Inc.

Speech to the Hawaii Corporate Planners Association



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A Simple Concept

American Trust Co. was built on a very simple concept: smart people need a special kind of trust company. Sophisticated people want to make their own decisions as to investments and distributions to family members, but they also want a trust company for continuity and a good recordkeeping system.

We have added a side benefit to the basic concept: we can show our clients how to do what they want to do. Expertise in the various trust fields, included as a part of the normal custodial trustee fee, is our valuable commodity.

The basic concept came to me over a number of years. I spent the first 18 years of my business life at Hawaiian Trust Co. where I assisted in hundreds of personal estate plans. I ended up as the vice-president for business development and was responsible for bringing a number of major accounts to Hawaiian Trust, including the American Factors profit sharing plan which I had helped to design.

In 1964 the management of American Factors became dissatisfied with the investment performance of Hawaiian Trust and notified us that they were about to select an independent investment counselor. Hawaiian Trust could keep the trusteeship, however, if we would accept a custodial-only relationship. That trust company, for the first time, served as a custodial-only trustee for a corporate retirement plan.

Widows Wanted Choice

After I became vice-president for corporate planning at Amfac in 1964, I ran into a number of the widows whose deceased husbands' estates I had planned while at Hawaiian Trust. In three

specific instances, three astute widows said to me, "It is not like you promised. Some young man is telling me what to do with my money, and I know more than he does." And they were right. These were sophisticated ladies, successful leaders in volunteer community activities.

In 1968, I moved to American Security Bank to become its president. Searching for a different way to compete with the big banks downtown, we sought and received Hawaii State approval to start a custodial-only trusteeship, restricting it to qualified retirement plans. In 1969 we marketed our custodial services to several brokerage firms, who then enthusiastically recommended the bank as retirement plan custodian for their clients. At Hawaiian Trust, with a staff of five full-time salesmen, my departmental quota was set at two qualified retirement plans a month. At American Security, with two clerks and no full-time salesperson, we became trustees for two plans every week.

In 1971 I elected to leave the bank and announced at a board meeting that I planned to start an independent trust company, to be called American Trust Co. of Hawaii, to build on the custodial trusteeship concept.

After the meeting, Hideo Kawano, a bank board member, came in to my office. Kawano, too, was planning to start an independent trust company and suggested we put our heads together. I gave him my five-year projections, indicating that the trust company would need \$500,000 in capital to weather the first years of losses. Each of us agreed to seek out 10 investors who would each invest \$25,000. We compared our investor lists. His list and mine had many common friends. We've enjoyed a very solid relationship. Hideo serves as board chairman and I am the president and chief executive officer.

New Account Every Day

American Trust's record has been, to say the least, spectacular. From 1972 to December 1983 we accepted between 250 and 350 net new accounts every year. We have made some clerical errors and lost a few accounts, but our net achievement was never less than one new account every working day of every year.

The company has grown in some years by 50 percent in market value of accounts. We make annual forecasts of our rate of growth in number and size of accounts, using regression formulas on a Lotus 1-2-3 spread sheet. Because we do not have an investment, real property management or tax department we have been able to stay lean in personnel costs and handle a great volume of ac-

counts with a minimum of overhead. No officer at American Trust, for example, has a full-time or even a part-time secretary. Everybody, including me, uses the word processing department and answers his or her own phone.

With the formation of a new strategic planning committee we increased our sophistication in 1981 and now go through a biennial planning process.

In 1983 the first storm clouds showed up on our horizon. As we studied the universe in which we operate, a number of adverse factors surfaced. First was the unprecedented influx in the number of new doctors, dentists and attorneys whose corporate retirement plans have been an important factor in our extremely rapid growth. But the increase in numbers has created stiffer competition within the professions. As a result the before-tax income of some professionals has begun to suffer.

TEFRA, the Tax Equity and Fiscal Responsibility Act of 1982, proved very damaging. Capriciously, Congress decided to repeal inflation by reducing retirement benefits. A professional who had been able to contribute \$45,000 per year to his money purchase pension plan was cut back arbitrarily to \$30,000 by TEFRA. Another professional who had been planning to retire on 100 percent of salary, not to exceed \$135,000, was told his annual retirement benefit could not exceed \$90,000. \$135,000 is the inflated equivalent of the \$75,000 a year benefit cap selected as a fair maximum when ERISA was passed in 1974.

Small Business Crucified

Congress in effect elected to punish doctors for the rising cost of health care. In the process, Congress crucified all small businessmen with the new concept of the "top-heavy plan." A top-heavy plan is defined as a plan where more than 60 percent of the benefits go to key employees.

In passing TEFRA Congress did not hold hearings and seek input from people experienced in the retirement plan field. I have a snapshot on my office wall showing me trying to explain to Senator Robert Dole why professionals need defined benefit plans because of their relatively short period of high earnings. The minute Senator Dole heard me mention "doctors' pensions," his eyes glazed and he turned away. The picture on my wall was snapped at that precise moment.

Looking at our strengths, American Trust recognized that we had built up a very large base of 3,500 clients. We determined we

could offer these present clients additional trust services. We began an internal client service officer calling program to search out each client's financial and trust needs.

At the same time we decided that our future expansion in new clients would have to come from the Mainland. In California alone there are 70,000 self-trusteed qualified retirement plans. There is no trust company offering comparable custodial service with American Trust's fee structure. The Mainlanders are hiring employee benefit consultants and plan administrators to run their plans. As self-trustees, they are exposed to fiduciary liability from poor plan investments and loans to plan members. Self-trustees lack experience and understanding of basic fiduciary safeguards.

At the same time a new retirement plan product, which enables members of a qualified profit sharing plan to reduce their before-tax income by salary reduction, came on the scene. This is Section 401(k) of the Internal Revenue Code. It has already proved to be extremely popular with America's "Fortune 500" corporations. Through this method a person who is concerned about saving before-tax dollars can authorize his company to put a portion of his gross, before-tax salary into a 401(k) qualified profit sharing plan. What he'll actually take home, then, will be a smaller salary—but a salary subject to lower taxes.

We hired a very knowledgeable life underwriter, an expert on 401(k), to lead American Trust Co. in marketing this on the Mainland. Our directors approved these two fields for further expansion and our strategic course seemed pretty well established.

A Business Opportunity

In May of 1984 a fantastic business opportunity presented itself. Crocker National Bank had fallen on rough times. Their aggressive lending policies, making large loans to Central and South American governments in the 1970s came home to roost in the spring of 1984. Crocker Bank wrote off \$250 million worth of loans and suffered a \$150 million net loss in the first quarter.

Seeking to obtain new cash, Crocker decided to sell off its brick and mortar assets, including the new Crocker Plaza in San Francisco, the Crocker Tower in Los Angeles and the Bishop Trust Building.

One of my directors was approached by an enthusiastic building salesman who indicated Bishop Trust itself might be available. I called on the president of Bishop Trust to confirm this rumor. He emphatically denied any such plan.

A few weeks later, the president called me back and said Bishop Trust might be available after all. In the meantime we had organized a strategic planning effort.

A Good Match

We concluded that there was a good match between Bishop, a full service fiduciary with a good investment record, and American Trust's custodial operations. We were in two different markets in Hawaii with a minimal overlap. American enjoys an outstanding trust accounting software/hardware package which produces excellent management information. Bishop uses an internally developed RPG language software system which is incapable of being updated.

With some extensive intelligence work, we estimated potential savings of \$400,000 a year in personnel costs at Bishop and another \$400,000 in lease rent for reduced office space. Our staff recommended the purchase as a buyable option.

We went to the executive committee of our board to try out this change in direction. While many of our board members were satisfied with our previous plans for internal and Mainland expansion, they unanimously voted to authorize formation of a holding company to be able to make an offer if Bishop were actually for sale.

Among Hawaii's legal specialists in SEC registrations and acquisitions it is rather difficult to find a lawyer who is not tied in to one of our competitors. We were very fortunate that a senior partner of Carlsmith, Carlsmith, Wichman and Case was available and willing to take us on. James H. Case devoted almost full-time attention to our negotiations for the next two months.

One of the first strategic decisions was to obtain additional capital. We chose to go to our existing shareholders and possibly to some of our major clients in Hawaii. As long as we kept the total offering to less than 25 Hawaii stockholders, we would not need to go to the SEC for registration. A third choice briefly considered was to go public. We found our present stockholder-directors were willing and able to back this purchase financially.

The stockholders decided to partially dilute their ownership by approving an employee stock ownership purchase as another source of capital.

ESOPS Offer Advantages

The Deficit Reduction Act of 1984 greatly improved the com-

petitive advantage of companies with employee stock ownership plans. Three very special benefits are given to ESOPs formed after July, 1984. The first is tax exemption for half the interest earned by a lending institution which lends to an ESOP to purchase company shares. Secondly, when the company pays dividends in the future, those dividends passed through to employee owners will be deductible by the paying corporation. Thirdly, the ESOP can provide a market for shareholders who are seeking to make their estates more liquid with readily marketable securities. If the ESOP owns 30 percent of the corporation, shareholders can sell their shares to the ESOP and reinvest the proceeds in listed securities without paying a capital gains tax at the time.

Since Bank of Hawaii will be acquiring Hawaiian Trust Co. and First Hawaiian Bank has a competitive trust department, we decided to approach First Interstate Bank for our company and ESOP loans. They were eager to help us and readily agreed to pass-through to the ESOP their net 25 percent reduction in taxes on the interest from the ESOP.

As the result of the acquisition, which I'll describe in a moment, all of the employees of American and Bishop have purchased stock in the newly formed holding company. Their combined stock purchases amount to a 20 percent ownership of the holding company. Profit sharing has served as the basis of our productivity efforts, but we believe ownership will have an even stronger appeal.

Over 40 individuals and firms asked for the purchase package from First Boston Company, the investment banker Crocker Bank had selected to find the highest possible bidder. Ten U.S. and foreign firms actually submitted bids. On decision day we were notified that we were tied with another firm as the highest bidders. We elected to strengthen our bid and successfully brought the ownership of this fine trust institution back to Hawaii.

We made a rapid survey among the legal and accounting advisers of Bishop Trust clients, and found a relatively indifferent attitude towards the quality of service received. There was a general feeling that property management for nearly a billion dollars in real estate was adequate but not superlative. The investment department was recognized as being good enough for a trust company, but nothing to write home about.

It was our profound belief that, since we were going to have full responsibility for client assets at Bishop Trust, we would have to materially improve the investment management of the securities —\$400 million—and of the real property.

The real property operation, with \$1 billion of assets under management, had been divided into two departments. Long-range leasing and sales reported to the trust officers and property management reported to the operations department. The same piece of property was being looked at by two sets of eyes with very little communication between them.

The stock and bond investment department annually reviewed nearly 1,000 different securities, asking the opinion of co-trustees and beneficiaries before making purchase or sales in many instances.

Top-Notch New Management

We reached out and found Edwin L. Carter, recently retired executive vice-president of Dillingham Corp. He agreed to take on the responsibilities of president of Bishop and to concentrate on improving the capabilities of the two important investment departments. Carol Mon Lee, senior vice president for personal trusts and marketing at American Trust, moved over to the number-two job at Bishop Trust and took charge of the day-to-day administration of 2,500 trust and agency clients.

We have transformed the holding company, formed to purchase the stock of Bishop Trust, into an operating company. The company will provide the finance, personnel, operations and audit functions as the common "back office" for the two trust companies. Clients will continue to deal with the trust officers in their chosen trust company. They will soon notice an improvement in their monthly statements when these are computerized on the American Trust accounting system. Statement headings will still read Bishop or American.

To the best of our knowledge there is no other two-headed trust institution like this in the world—American Trust for those clients who want to run their own affairs, and Bishop Trust for those clients who want their families to benefit from outstanding investment management and real property performance.

The real property division of Bishop Trust will become proactive. They will ascertain the highest and best use of each property asset and determine the changes in infrastructure, zoning and planning needed to bring these properties up to highest use. Previous practice had been to wait until a potential lessee or buyer showed up and then deal with his proposal.

American Trust will continue its thrust to the Mainland, putting on seminars for present and prospective clients. The sales officers of both companies will earn commissions for selling the

services of either company. They will follow the clients' comfort pattern as to the trust company of their choice.

Trust product development, planning, client research, public relations and advertising have been concentrated in the operating company. The sales personnel remain at the trust company level where they will have close contact with their prospects and the trust officers.

New Combination For Better Service

In the new world of deregulated financial services the combination of American and Bishop is well poised to offer a variety of choices to clients. We will compete with the brokerage firms, the insurance companies and with the two leading banks and their trust operations. To some extent we will also be competing with savings and loans and credit unions, although American Trust sponsors the AmTrust Federal Credit Union for the benefit of our retirement plan clients.

The Hawaii market is not growing at the rate of the '60s and '70s. All of us are concerned about the departure of the headquarters of Amfac, Castle & Cooke and Dillingham from the Islands. All of us are concerned that the traditional agricultural bases of our economy appear to be withering. All of our service economy depends on the success of the visitor industry and federal government spending.

The combination of American and Bishop, \$2.6 billion of client assets, makes us equal to Hawaiian Trust with each of us serving 40 percent of the total trust market in the state. We believe that the 6,000 present clients of our two companies can use many more of the financial services that we each offer.

We have chosen to stay within the trust field rather than to conglomerate for the sake of growth. The officers of both trust companies have a good understanding of basic fiduciary trust law. There is a distinction between the limited fiduciary exposure of American Trust as a custodial trustee and Bishop Trust with its full range of trust services and responsibilities.

Bishop and American: each offers special, unique services. American, for example, has developed a truly objective investment performance measurement program that enables clients who are running their own affairs to monitor how they are doing on an absolute basis and on a relative basis by comparison with inflation and the investment performance of other groups of investors.

American provides a common trust fund umbrella for three carefully selected, independently monitored, independent in-

vestment managers for retirement plan clients who may invest \$10,000 or more of plan funds in the pooled funds. American offers a federal credit union for clients who need to refinance their TEFRA limited plan loans. American also offers a master trust type of accounting with combined and separate reporting for different investment managers for segments of a retirement trust account.

Unique Features From Bishop

Bishop, on the other hand, offers unique features besides investment management and property management. There is an outstanding corporate trust department serving as trustee for bond issues and agent for stock transfer. Bishop has a tax services department for fiduciary and personal tax returns. They have built the large volume needed to carry these specialized products and to pay for the expertise to offer them successfully.

Clients have reacted favorably to this new combination. We have not experienced negative reactions from any client of either company; all seemingly like the combination. General public reaction to bringing back the management of Bishop from California has been extremely favorable.

The officers of Bishop Trust used to receive their marching orders from California every morning. Defense against liability suits was coordinated from California. Property management decisions were made in California.

We have found that the staff of Bishop Trust is delighted to have a say in their own destiny. We have established 17 task forces to work out the back office coordination and to reorganize the investment management and real property management functions.

We believe the elimination of duplicate administrative and financial systems will provide economies and free up our officers for client service contacts. We do not plan any further staff layoffs but expect attrition will reduce the total number of employees of the two companies. Senior management approval is required before another person will be hired by either company.

We have recently received approval of our chosen name—American Financial Services of Hawaii, Inc.—for the operating company. This name was not available until state legislative action became effective October 1, 1984. This new name best expresses our potential in the market place. We will be ready under our charter to consider almost any form of financial service which appears to be profitable and needed by our present and future clients. This name also indicates future career oppor-

tunities for the staff of both companies.

We have integrated fringe benefits so that personnel transfers between the two companies will be very simple.

Ed Carter's style of management and my style are identical. We will make the necessary executive decisions, but only after we have received input and comments from the persons involved. We have both agreed that no edict affecting somebody's operation will go into effect before that person has a chance to comment and give us his suggestions for improvement. This policy has already kept us from making egregious mistakes.

We have a pretty clear idea of where we want to be and when we want to be there, but the detailed program for getting there will be left in the hands of our capable officers and staff.

Room For Entrepreneurial Spirit

Looking back, I think there is a moral to be learned from American Trust. We opened our doors on the first of November, 1971 with six employees and no accounts. Since that time we have grown to 104 employees and 3,500 accounts. Now with the acquisition of Bishop Trust we total 250 employees, 6,000 accounts and \$2.6 billion of client assets. This is pretty firm evidence that there is plenty of room in Hawaii for an entrepreneurial attitude in the service field.

We have also demonstrated that Hawaii can serve as a financial center for clients throughout the Mainland United States who want quality service for their qualified retirement plans at a reasonable fee.

American already has over 500 Mainland retirement plan clients, with this growth progressing steadily. Through modern telecommunications and computers it is possible to process security purchases on the same day in New York. Our client may be located in Greensboro, North Carolina; his investment manager in Chicago and his stockbroker in Atlanta as long as American Trust is coordinating the transactions. We believe there are no limits to expansion in our specialized niche of financial services.

A mid-course correction? Yes. But also steady progress in the trust field, with carefully designed distinctions between the services each company will offer. And yet there is room for some healthy fuzziness for those clients who wish Bishop's custodial service or American's clients who want common trust investing.

Our clients have needs that we can service at a profit. That's the direction in which we'll be moving.

THE GOOD BEGINNINGS ALLIANCE

A PUBLIC-PRIVATE PARTNERSHIP FOR

EARLY CHILDHOOD EDUCATION AND CARE

IN HAWAII

Robert R. Midkiff.
Chairman

April 5, 1997

THE GOOD BEGINNINGS ALLIANCE

Speech by
Robert R. Midkiff, Chair
before the
Social Science Association
April 7, 1997

What can we do to break the cycle of children having babies, children shooting children with guns, and 24% of disadvantaged young men spending years in jail? What can we do to help today's children prepare for the new world in the informational age? A growing consensus of opinion leaders, throughout the nation and in Hawaii, believe the best opportunity to break the cycle is in the early years before children attend formal school.

We now have scientific evidence that techniques for developmentally appropriate education and care of very young children can make the difference. More has been learned over the last ten years about the development of a child's brain than in the past ten centuries. Both Newsweek and Time Magazines have reported on new gene research and advanced brain scan technology which enable scientists to watch the incredible growth of the human brain during fetal life, infancy and childhood.

A mother's physical and emotional well-being during pregnancy has a huge effect on her child's brain development. Alcohol, cocaine, nicotine and other toxins consumed during pregnancy disrupt brain development. Research has shown that expectant mothers smoking more than one pack of cigarettes per day can produce an eight-fold increase in conduct disorders by their children after they reach 8 to 10 years of age.

When a healthy baby is born its heart, liver, legs and arms are fully formed. Until recently we did not know that only the brain stem and the connections that control the movement of legs and hands, for example, are hard wired by birth. During the first

three years after birth the brain sends out trillions of little feelers at an incredible rate and makes billions of connections with the correct receptors.

Different areas of the brain will make better connections in response to external stimuli. The motor brain area develops with play and creative movement. The emotional brain area flourishes with parental soothing and is stunted by stress and constant threats. The language brain area is developed when caregivers talk and read to the child. Children can master two or more languages before they are 10! The musical brain area and the logical brain area are developed by singing songs and playing counting games. These two areas of the brain are mutually supportive. Their proper development will help children into the information age.

Early experiences are so powerful that they can drastically change the way a person turns out. Neurophysicians have concluded that genes determine only the main circuits of the brain. External nurturing and stimulation can strengthen trillions of brain connections.

These very early years are the great learning years, the years when the future development of a child's personality and success in life are patterned by favorable and unfavorable experiences. The first five years of life are critical. While it is always possible to make up for the lost learning opportunities which occur so easily for a very young child, that child's brain will have to struggle to catch up later and reach its full potential.

Recent History in Hawaii

In 1989 the education committee of the Hawaii Community Foundation's Robert E Black Fund financed several demonstration projects at preschools located on the Neighbor Islands and on Oahu. These projects were in response to one of the

recommendations of the Paul Berman Report to the Hawaii Business Roundtable on Hawaii's statewide educational system.

The Black Fund provided grants for equipment, scholarship assistance to students which increased accessibility for low income parents, teacher training to support pursuit of national accreditation, and facilitation to encourage parents to become much more involved in the success of their child's early education experience. A longitudinal study of the progress of the young graduates from a demonstration preschool in Wahiawa is still in progress, but preliminary reports are favorable.

In 1990 the state instituted a scholarship program called "Open Doors" for young preschoolers from low income census districts. An average of \$3 million per year of scholarship assistance, based on a sliding fee scale, has enabled thousands of four and three year old children to have a pre-kindergarten experience. Open Doors has helped many parents participate in the successful education of their young children.

Federal health and early education programs such as Head Start, Healthy Start, Title IV, and Child Care and Development Block Grants have assisted children of lower income parents and children from single parent homes to get a better start in life. Federal programs for special needs children who may face developmental delays due to physical or mental disability or may be at environmental risk are also funded.

For many years the Kamehameha Schools/Bernice P. Bishop Estate operated a comprehensive early childhood education program for children and families, beginning with the first trimester of pregnancy and running through preschool. Each year some 10,000 part-Hawaiian youngsters attended KEEP preschools in state and county facilities or visited the traveling preschools. Expectant parents were visited by a "Parent-Educator," who would follow the family through birth and the first two years of life. Most of this beneficial program has recently been terminated by the Trustees who

have changed their focus and are in the process of building magnificent elementary school edifices on each of the neighbor islands and a new preschool in Waianae. These buildings will serve 3000 children per year. The program no longer serves expectant mothers, babies, and toddlers, the very years that research now tells us are the most critical.

Three and four year old children whose parents can afford it have access to a wide variety of private preschools located in churches, state and county playgrounds, and in buildings built by private philanthropy. Parents of infants and toddlers have fewer options and often depend on grandparents, aunts, or care providers for care and education. Center based care for infants and toddlers is prohibitively expensive and creates a specially difficult problem for newcomers without a family support system.

Some of the care providers have been trained in the educational techniques that are developmentally appropriate for each growing child...many have not. Some of the care sites are registered with the State Departments of Health or Human Services and monitored for the health and safety of the children...many are not.

With the strict new requirements of Welfare to Work under Welfare Reform, the demand for baby sitting and custodial care will increase. There will be an opportunity to add education to custodial care when parents insist on developmentally appropriate quality training.

There are many uncoordinated efforts to make these early learning years beneficial to the growth and development of Hawaii's young children. A 1994 research report found 364 center-based programs operating in Hawaii with a capacity of 21,000 children up to age five. The report identified 7 group child care homes and 334 family

child care homes with 1 to 6 spaces licensed by the Department of Human Services. 365 military family child care homes were reported with total capacity of 4,100 spaces.

With 83,000 potential child care recipients and only 25,000 spaces available, there is a need for expanded services. Over sixty per cent of women with children under the age of five are in the workforce. Forty-one per cent of Hawaii's young children stay at home with or without a parent. While most children who stay at home receive loving care, many parents would benefit from quality child care training that emphasizes warmth and love, responsiveness, and consistency in educational efforts.

The Early Childhood Education and Care (ECEC) Coordinating Committee

After the Preschool Demonstration Project ended, the Black Fund, jointly with the Governor's Office of Children and Youth and the Hawaii Business Roundtable, funded an Early Childhood Education and Care Coordinating Committee made up of 30 government and private sector leaders and an ECEC Cost Study. The objectives were to create a vision of the optimal early childhood education and care system for Hawaii by the year 2000, and develop a way to pay for it.

The vision:

"An optimal early childhood system of education and care will enable all children in Hawaii to reach their full potential, prepare themselves for a life of successful learning, and become productive family and community members.

The optimal early childhood education and care system will provide all children with equal access to quality education and care resources which are appropriate to families' life circumstances and preferences."

The Cost Study was completed in 1995 and found the cost of all present programs for ECEC to be about \$130 million per year. Parents paid nearly 60%. Hawaii State contributed 22%, the Feds 14%, charitable organizations (Bishop Estate

and Aloha United Way) contributed 5%. Business and the counties contributed the balance.

The Hawaii Early Childhood Education and Care Coordinating Committee recommended that a permanent structure for ECEC be established with these guidelines:

- any approach should be incremental in nature and built on existing resources, given Hawaii's tenuous economic situation;
- new ways of doing business must be introduced. Current working relationships between families, agencies, and service providers are not adequate;
- communities must become the heart of the new system. Communities are best able to define their own strengths and needs and can marshal local resources;
- linkages between a broad range of services for children and families must be established and strengthened, including early education and care, education for parenting, early intervention, family support, and child health and nutrition.

The Good Beginnings Alliance

The concept of a non-profit Good Beginnings Alliance was born and sketched out at a meeting of the 31 member ECEC Coordinating Committee held on the hill campus of the Kamehameha Schools. The Alliance is built upon partnerships between families, communities, and the public and private sectors. The Alliance is a 501 © (3) non-profit agency designed to formulate policy, build linkages and secure private and philanthropic funds. Because no single state agency has sole responsibility for ECEC, the Alliance partners with a state cabinet-level interdepartmental council of the six agencies having involvement with early childhood, and with four county coordinating councils on Kauai, Oahu, Maui and Hawaii. These county early childhood coordinating councils have been set up by the four mayors with responsibility to map local needs,

identify necessary supports for healthy children and families, and seek local resources. The Good Beginnings Alliance partners will support community planning efforts, develop policy, build a sustainable resource base, coordinate the ECEC system, and champion comprehensive services for children and families.

The Five Year Master Plan

The GBA has identified five essential elements for an organized early childhood system:

- "Families in the System" focuses on families as first teachers, family involvement in ECEC programs, and access to support services. These include financial aid, consumer education, and information.
- "Assuring Quality Programs and Services" assesses the standards, both regulatory and voluntary, that ensure children's health and safety and support positive outcomes. These include availability of qualified personnel and improved consumer information.
- "System Coordination and Accountability" focuses on policy development, state and community level coordination, better data, and continuing evaluation of outcomes.
- "System Financing and Resource Development" will make the most of what exists, explore new ways to allocate and distribute funds, encourage sharing of resources, and create incentives for additional investment by the private sector. We offer a list of 56 financing techniques to boost support for the system.
- "Public Education and Engagement" is probably the most important goal of all. Until Hawaii's citizens understand the importance of the early years for children's development and life outcomes, little change can happen.

Our timing for the local public education campaign coincides with a monumental three-year national informational campaign. This campaign will be funded by major

national foundations, such as Carnegie Corporation and the Robert Woods Johnson Foundation, as well as major national corporations such as IBM and AT&T. This public awareness program will kick off with a two hour ABC special on April 17 and a special edition of Newsweek Magazine. A White House Conference will be convened by Hilary Clinton. There will be many collateral campaigns, including one by the American Council of Pediatricians. Every state will receive elaborate press kits with editorial comment and artwork to localize this national campaign.

The Good Beginnings Alliance has received pledges of three year operational grants from several large local foundations and will apply to other local and mainland foundations as the need arises. We have hired Robert Springer, formerly director of the Kamehameha Early Education Program, as our executive director. We have received donated office space, equipment, and a payroll system. We plan to raise operational funds from corporate and private memberships.

The GBA committees established to flesh out the goals meet monthly or more often. Each of the County Coordinating Committees have assembled an excellent core of enthusiastic early education specialists to serve as members of the same committees on each island. The Governor's office continues to provide some interim support staffing and convene the cabinet coordinating committee to review GBA policy recommendations.

Conclusion

How do we know we are on the right track? Our best evidence is found in the research journals published by the David and Lucile Packard Foundation. Their issue on "Long Term Outcomes of Early Childhood Programs" reviews 83 longitudinal studies. The longest-term longitudinal study researched the Perry Preschool Project for 58 inner city children in Michigan. Twenty years after graduation from the Perry

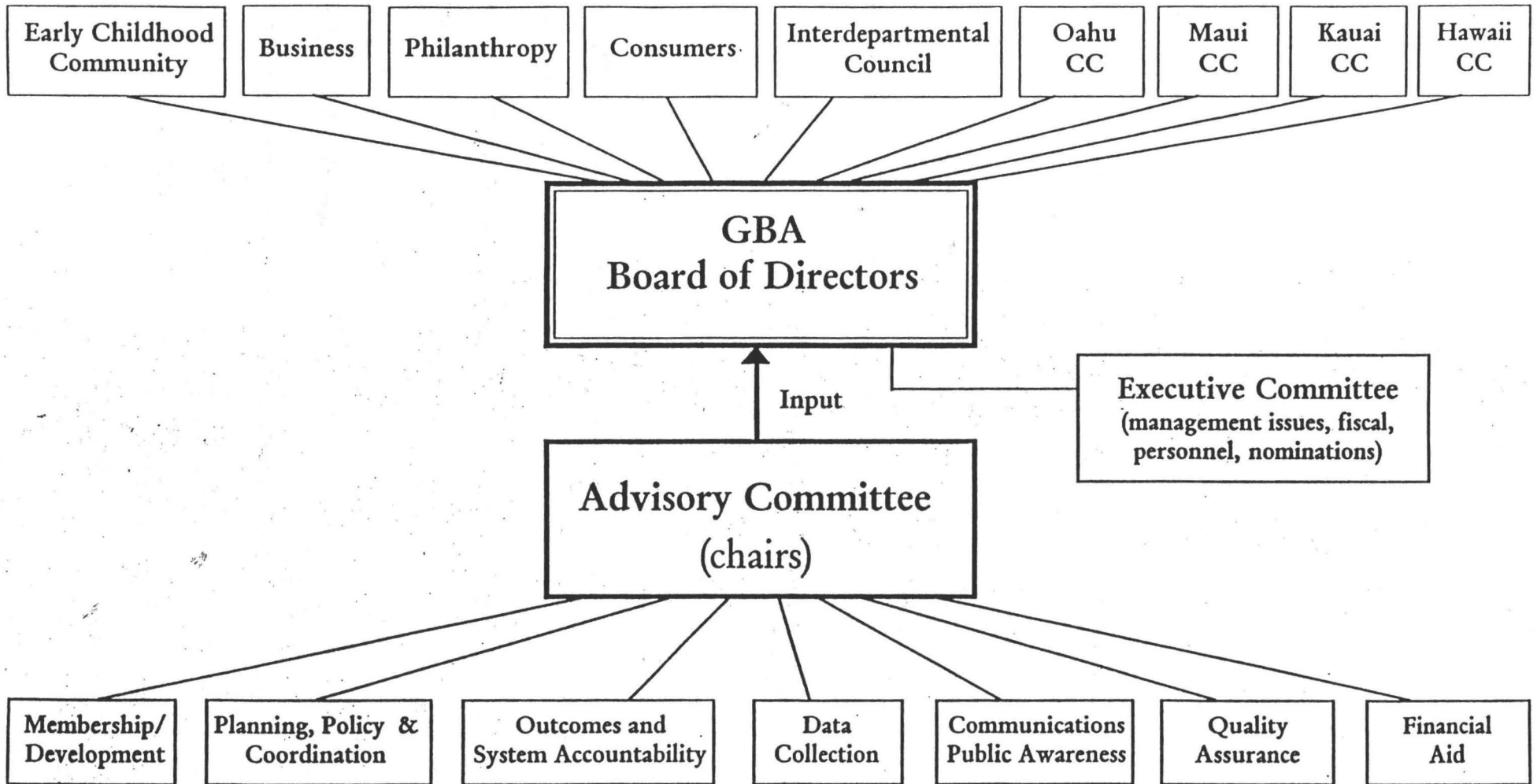
Preschool, the program, which cost about \$12,300 per family, yielded benefits of \$108,000 per family. Of these benefits, \$12,800 resulted from savings in the criminal justice system. Another \$58,000 came from savings from crimes that were never committed compared to those committed by the control group of children who did not attend preschool. Future benefits exceeded the costs of a quality preschool education by better than seven times!

The whole world is changing rapidly from the industrial age to the information age. There will be fewer jobs for undereducated men and women and their previous work experience won't count for much. Throughout the world many of these people will no longer be useful and productive in the information society. Many will have to survive with governmental assistance or become an outlaw group living by antisocial behavior.

Without nurturing parents and good beginnings, children will be doomed to an unproductive and unhappy life. Unless the brains of very young children are developed so that they will be ready to learn in the informational age, businesses will not find the intelligent workforce they need to compete in the global economy.

The annual cost of the optimal system for early childhood care and education for Hawaii will probably exceed current expenditures by at least four times. But future benefits from quality early childhood education and care will exceed those costs by at least seven times! We have a clear choice; "Pay now, or pay seven times more later". The Good Beginnings Alliance is dedicated to presenting this choice clearly and vigorously to Hawaii's parents and the public.

Appointees



(Membership selects Committee on which to work)

GLOSSARY

The following words and phrases are non-English terms. Non-English is here defined as any lexical item not found in *Webster's Ninth New Collegiate Dictionary* (Springfield, Mass.: Merriam-Webster Inc., 1986), with the exception of Hawaiian words.

The language family of each word or phrase is indicated by a letter or letters in parentheses:

- (H) Hawaiian
- (HCE) Hawai'i Creole English
- (J) Japanese

References for the definitions used in this glossary include Koh Masuda, ed., *Kenkyūsha's New Japanese-English Dictionary*, 4th ed. (Tokyo: Kenkyūsha, Ltd., 1974) and Mary Pukui and Samuel Elbert, *Hawaiian Dictionary*, rev. and exp. ed. (Honolulu: University of Hawai'i Press, 1986).

The following definitions apply to the lexical items as they appear in the context of the transcript. An asterisk (*) indicates a definition supplied by a staff member or interviewee.

ahupua'a (H) land division usually extending from the uplands to the sea
akua (H) god, goddess
ali'i (H) noble, aristocrat, royalty

bentō (J) lunch, box lunch

'Ewa (H) place name west of Honolulu, used as west directional term*

gaijin (J) foreigner

Haole (H) Caucasian

heiau (H) pre-Christian place of worship, shrine

hō hana (H) fieldwork with a hoe, weeding*

honohono (H) basket grass, a creeping grass that originated in America

hui (H) association

kahuna (H) priest, sorcerer, expert

kama'āina (H) native-born

kapu (H) prohibited, forbidden

ken (J) prefecture

kiawe (H) algaroba tree

koa (H) largest of native forest trees (*Acacia koa*)

lānai (H) veranda

lau hala (H) pandanus leaf, especially as used in plaiting

makai (H) towards the sea

mauka (H) towards the mountain

mu'umu'u (H) chemise, loose gown

Nihonjin (J) Japanese person

pi'opi'o (H) marriage of brother and sister

poi (H) cooked taro corms, pounded and thinned with water

pōmaika'i (H) good fortune

pūpū (HCE) appetizers*

sensei (J) teacher

-yama (J) Mount, as in Mount Fuji

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**An Oral History
of
Robert Richards Midkiff**

**Center for Oral History
Social Science Research Institute
University of Hawai'i at Mānoa**

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